

Message Text

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ACTION OPIC-06

INFO OCT-01 NEA-09 ISO-00 EB-07 AID-05 XMB-02 COME-00

FRB-03 TRSE-00 IGA-01 CIAE-00 INR-07 NSAE-00 /041 W

----- 107046

R 101250Z MAR 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 7390

INFO AMCONSUL BOMBAY

LIMITED OFFICIAL USE SECTION 1 OF 2 NEW DELHI 3305

PASS OPIC

E.O. 11652: N/A

SUBJECT: EAST INDIA HOTELS LTD. (EIH)

COOLEY LOAN #386-E-209

REF: COLLAMER/O'DON BLL MEMO DATED 11/25/74
(PLUS ATTACHMENT)

SUMMARY: MISSION RECOMMENDS UNPAID PRINCIPAL BALANCE OF
SUBJECT LOAN (RS. 42,218,750.00) BE RESCHEDULED WITH 26
SEMIANNUAL INSTALLMENTS BEGINNING APRIL 6, 1977 THRU ORIGINAL
MATURITY DATE OCT. 6, 1989.

(25 AT RS. 1,623,800 AND FINAL AT RS. 1,623,750).

IN CONSIDERATION FOR RESCHEDULING THE SUBJECT LOAN WE SHOULD
OBTAIN A COMMITMENT FROM EIH THAT (A) THEY WILL NOT IN-
CREASE THE TOTAL AMOUNT OF PUBLIC DEPOSITS OUTSTANDING OVER
THE BALANCE OF THE PREVIOUS MONTH WITHOUT USAID APPROVAL
IN WRITING IN ADVANCE, AND (B) THEY WILL MAKE
NO CAPITAL IMPROVEMENTS OR EXPANSIONS WITHOUT USAID
APPROVAL IN WRITING IN ADVANCE. WE BELIEVE THAT WOTH OUR
ASSISTANCE AND A CONTINUED IMPROVING TREND IN THEIR FINANCIAL
OPERATIONS, EIH WILL BE ABLE TO WORK OUT OF THEIR PRESENT
FINANCIAL PROBLEMS. OUR POSITION IS BASED ON THE ASSUMPTION
THAT THERE WILL NOT BE A RUN BY PUBLIC DEPOSIT HOLDERS. IF
THERE IS A RUN BY PUBLIC DEPOSIT HOLDERS, IT WOULD NOT

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MATTER WHETHER WE GRANTED THE RESCHEDULING SINCE WE WOULD

HAVE TO EXERCISE OUR RIGHTS AS THE HOLDER OF THE FIRST MORTGAGE REGARDLESS OF THE RESCHEDULING.
ACTION REQUESTED: OPIC APPROVAL FOR DEBT RESCHEDULING AS OUTLINED ABOVE. END SUMMARY.

1. THE REF. MEMO HAND CARRIED BY COLLAMER TO KATZ IN DECEMBER 1974 CLEARLY DESCRIBES THE CURRENT SITUATION WITH EIH. THE REF. MEMO RECOMMENDED AGAINST RESCHEDULING THE LOAN UNTIL WE SATISFIED OURSELVES THAT EIH WAS FINANCIALLY VIABLE, AND WE NOW BELIEVE THAT EIH WILL SURVIVE ITS CURRENT FINANCIAL PROBLEMS. FURTHER, IT APPEARS TO BE IN OUR INTERESTS AS WELL AS EIH'S TO RESCHEDULE THE LOAN SO THAT THE DELINQUENCY DOESN'T SHOW UP ON THE ANNUAL REPORT AS OF 3/31/75 AND CAUSE ANY ANXIETY AMONG THE PUBLIC DEPOSIT HOLDERS.

OPIC/USAID PROVIDED THE ONLY LONG TERM FINANCING (RS. 43.5 MILLION) FOR THE OBEROI/SHERATON HOTEL IN BOMBAY. THE BALANCE OF THE FUNDS WERE RAISED BY ISSUING PUBLIC DEPOSITS HAVING 1-5 YEAR MATURITIES WITH INTEREST RATES RANGING FROM 12 PERCENT TO 15 PERCENT. AS A RESULT, EIH CURRENTLY HAS BORROWED APPROXIMATELY RS. 160 MILLION VIA PUBLIC DEPOSITS AND HAS AN ANNUAL INTEREST EXPENSE OF ALMOST RS. 30 MILLION. CONSEQUUUUUUENTLY, THERE IS CONSIDERABLE PRESSURE ON EIH TO GENERATE SUFFICIENT CASH TO COVER INTEREST AND LOAN PAYMENTS AS THEY MATURE.

2. ON PAGE 5 OF REF MEMO WE HAVE ESTIMATED THE CASH GENERATIONS OF EIH FOR THE TWELVE MONTHS ENDING MARCH 31, 1975. ALTHOUGH EIH IS NOW ANTICIPATING A HIGHER GROSS OPERATING PROFIT PERCENTAGE, THE ADDITIONAL FUNDS GENERATED WOULD BE OFFSET BY A RECENT INCREASE IN THE TAXES EIH WILL HAVE TO PAY. THUS THE NET ESTIMATED CASH GENERATION FROM OPERATIONS OF RS. 2 MILLION WILL BE SUBSTANTIALLY UNCHANGED.

CASH GENERATIONS FROM OPERATIONS CAN BE EXPECTED TO IMPROVE IN FUTURE YEARS AS THE ROOM RATES OF THE BOMBAY HOTEL ARE INCREASED AND AS HBE GROSS OPERATING PROFIT IS SIMILARLY IMPROVED. THE BOMBAY HOTEL PRESENTLY ACCOUNTS FOR ABOUT 40 PERCENT OF EIH'S REVENUES AND THE MANAGEMENT LIMITED OFFICIAL USE

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IS CONCENTRATING ITS EFFORTS ON THIS HOTEL TO BOTH INCREASE REVENUES AND IMPROVE THE PROFIT MARGIN. ALTHOUGH IT HAS HAD ABOUT 90 PERCENT OCCUPANCY FOR DECEMBER AND JANUARY THESLATE FOR THE NINEMONTHS ENDED 12/31/74 WAS ONLY 75 PERCENT. SINCE THIS IS ONLY THE SECOND YEAR OF OPERATIONS, EIH MANAGEMENT EXPECTS A MUCH HIGHER ANNUAL OCCUPANCY RATE AND IS HOPEFUL OF GENERATING RS. 60 MILLION IN THE NEXT FY. BASED ON OUR CLOSE WORKING RELATIONSHIP

OVER THE LAST 6 MONTHS, WE HAVE FOUND THEIR PROJECTIONS UNUSUALLY ACCURATE AND WE DO NOT CONSIDER THE RS. 60 MILLION TO BE UNREASONABLE. THUS FUTURE CASH GENERATIONS SHOULD EASILY COVER PRINCIPAL PAYMENTS TO OPIC/IFCI/EXIM OF RS. 1.8 MILLION (EXCLUDING SUBJECT LOAN) MATURING ANNUALLY AND ALLOW FOR A GRADUAL REDUCTION IN PUBLIC DEPOSITS. EIH HAS SOLD THE SWISS APARTMENTS MENTIONED ON PAGE 3 OF REF MEMO FOR RS. 11.5 MILLION. IN ADDITION, THEY GENERATED RS. 3 MILLION BY A LONG TERM LEASE CONTRACT WITH A BANK ON A PORTION OF SHOPPING AREA MENTIONED ON PAGE 3 OF THE ATTACHMENT TO THE REF MEMO. THE RS. 16.5 MILLION (RS. 2 PLUS 11.5 PLUS RS. 3 MILLION) WILL ALLOW THEM TO KEEP CURRENT ON THEIR OTHER LOAN REPAYMENTS TO OPIC/IFCI/EXIM. (RS. 1.8 MILLION ANNUALLY. THE BULK OF EIH'S DEBT IS PUBLIC DEPOSITS AND BANK BORROWING AND THERE ARE NO ANNUAL REPAYMENTS ON THE BANK DEBT.)

3. WE DO NOT
X NOT BELIEVE THAT IT IS NECESSARY TO REQUEST THESE
OTHER LENDERS TO PROVIDE DEBT RELIEF AS WE ARE RECOMMENDING
ON REPAYMENTS AND SHOULD BE ABLE TO CONTINUE MAKING THE

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ACTION OPIC-06

INFO OCT-01 NEA-09 ISO-00 EB-07 AID-05 XMB-02 COME-00

FRB-03 TRSE-00 IGA-01 CIAE-00 INR-07 NSAE-00 /041 W

----- 107361

R 101310Z MAR 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 7391

INFO AMCONSUL BOMBAY

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PASS OPIC

PAYMENTS OF PRINCIPAL AND INTEREST ON THESE LOANS. THE
CASH PROBLEMS ARE LINKED TO FINANCING THE CONSTRUCTION OF

THE BOMBAY HOTEL. IN ADDITION TO FINANCING ONLY 25 PERCENT OF THE COST ON A LONG TERM BASIS, THE FIRST PAYMENT WAS DUE IN APRIL 1974, ONLY 12 MONTHS AFTER THE HOTEL BEGAN OPERATIONS. IT SHOULD BE NOTED THAT THE HOTEL OPENED IN APRIL 1973 WITH ONLY A SMALL PERCENTAGE OF THE ROOMS AVAILABLE FOR OCCUPANCY AND IT WASN'T UNTIL THE END OF CY 1973 THAT THE HOTEL HAD SUBSTANTIALLY ALL ITS ROOMS AVAILABLE. THUS THE HOTEL HAD NO GRACE PERIOD ON ITS LOAN REPAYMENTS UNDER THE SUBJECT LOAN WHILE IT WAS COMMENCING OPERATIONS.

4. THE MISSION BELIEVES THAT THE MANAGEMENT OF EIH IS COMPETENT AND BASED ON OUR OBSERVATIONS THEY DO RUN A GOOD HOTEL OPERATION. THE OPERATING FIGURES OF THE BOMBAY HOTEL SHOWN IN THE ATTACHMENT TO THE REF MEMO CONTINUE TO SHOW IMPROVEMENT. MONTHLY GROSS REVENUES WERE ALMOST RS. 5 MILLION IN DECEMBER, THE OCCUPANCY RATE IS OVER 95 PERCENT AND THE OTHER FIGURES SHOW COMPARABLE IMPROVEMENT. THE HOTEL HAS BEEN ADEQUATELY RECEIVED AND THE ROOM RATES HAVE BEEN RAISED AS OF 2/1/75 TO RS. 225 FROM RS. 200 FOR A SINGLE AND RS. 300 FROM RS. 275 FOR A DOUBLE. AS A RESULT, FY 75/76 OPERATIONS SHOULD CONTINUE TO REFLECT AN IMPROVED LIMITED OFFICIAL USE

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FINANCIAL CONDITION.

5. BECAUSE OF THE DIFFICULT FINANCIAL SITUATION RESULTING FROM THE EXCESSIVE USE OF PUBLIC DEPOSITS, EIH MUST CAREFULLY MANAGE ITS CASH GENERATIONS TO MEET ITS CURRENT COMMITMENTS AS WELL AS REDUCE THE OUTSTANDING BALANCE OF PUBLIC DEPOSITS. IN ORDER TO ASSURE THAT THIS SITUATION IS PROPERLY CONTROLLED, OPIC/USAID SHOULD TAKE THE FOLLOWING STEPS:

- A. PROHIBIT EIH FROM INCREASING THE OUTSTANDING BALANCE OF PUBLIC DEPOSITS OVER THE BALANCE OF THE PREVIOUS MONTH WITHOUT PRIOR USAID APPROVAL IN WRITING. THUS AS EIH REDUCES PUBLIC DEPOSITS, THEY WILL NOT BE ABLE TO INCREASE THEM WITHOUT OUR PRIOR APPROVAL.
- B. PROHIBIT EIH FROM MAKING ANY CAPITAL IMPROVEMENT WHATSOEVER WITHOUT USAID'S PRIOR APPROVAL IN WRITING.
- C. SINCE WE HAVE A FIRST MORTGAGE ON OUR LOAN WITH AN UNPAID PRINCIPAL BALANCE OF RS. 42 MILLION AND THE HOTEL COST OVER RS. 160 MILLION, THERE IS NO REASON TO LOOK FOR ADDITIONAL SECURITY.

6. IN CONCLUSION, IT IS OUR OPINION THAT EIH IS HAVING FINANCIAL DIFFICULTIES AS SET FOR IN REF MEMO. EIH IS UNABLE AT THIS TIME TO GENERATE CASH ADEQUATE TO MEET THEIR LOAN REPAYMENT COMMITMENTS (INCLUDING REDUCING OUTSTANDING PUBLIC DEPOSITS) AND LEAVE ENOUGH IN THE COMPANY TO COVER DAY TO DAY OPERATING COSTS. AT THE SAME TIME WE DO BELIEVE

THAT THE SITUATION IS NOT HOPELESS AND THAT EIH CAN SURVIVE
THIS CRISIS WITH OUR ASSISTANCE. IN THIS REGARD WE ARE
RECOMMENDING THE LOAN REPAYMENT RESCHEDULING OUTLINED IN THE
SUMMARY ABOVE AS WELL AS THE CONTROLS DISCUSSED IN 5(A)
AND (B). WITH THIS ASSISTANCE AND CONTINUED IMPROVEMENT
IN THE FINANCIAL OPERATIONS OF EIH, THEY SHOULD BE ABLE TO
REDUCE THE PUBLIC DEPOSITS TO A MANAGEABLE LEVEL OVER
THE NEXT 3-5 YEARS. (MR. G.P. VARSHNEYA ON TDY IN THE AID
CONTROLLER'S OFFICE IS KNOWLEDGEABLE ON THIS LOAN AND COULD
DISCUSS THIS CABLE WITH YOU. CONTACT HIM THRU CLAUD ALSOP).
SAXBE

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